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## **ECONOMIC STATECRAFT: THE USE OF ECONOMIC POWER BY A NATION TO PURSUE ITS STRATEGIC POLICY GOALS FOR NATIONAL SECURITY**

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- Amid rapidly rising tensions in East Asia, Japan has put in place measures to strengthen its economic statecraft one after another.
- Policy measures for economic statecraft vary. The scope of economic statecraft covers a wide-range of government economic policy.
- Conventional Keynesian economic policies and economic statecraft policies are two separate sets of economic policies based on different values and in pursuit of distinctive policy objectives. They are, however, not conflicting with each other, but rather mutually reinforcing.

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Never in the post-war years has the need for mobilising “economic statecraft” to harness economic power for national security purposes been so acutely recognised in Japan as today.

Of late, dangers have been perceived in our neighbourhood, where the flexing of military muscles threatens the peace and security of a number of nations in this region. If our government and public had more assiduously sharpened their swords to prepare for future dangers while our economy still remained robust, our nation would not have had to rush to deal with this issue now. Nonetheless, it is not too late to act.

While Japan is now keenly aware of the need to seriously strengthen its defence capabilities, the recent focus on economic statecraft appears to assume that Japan, still under somewhat restraints on bolstering its military power, should first explore all other non-military measures available, even while facing a real national security crisis looming over the Far East.

“Economic statecraft” is not a policy to protect the interests of the business community by preventing infringements by foreign governments, but is a policy to guarantee the security of a sovereign state by making full use of its economic power against any political and military threats from other countries. Over the years, Japan and the West have taken various countermeasures against illegal trade restrictions by China, which has profited from the free markets of the West, buying up real estate and sending their engineers and students to steal technology in the West, while it has closed its own market, forced foreign companies to disclose advanced technologies, and prohibited real estate purchases.

Most egregious in the export restrictions and impositions of excessive export taxes China repeated on its rare earths, tungsten and molybdenum since 2006 was their total export ban to Japan after a Chinese fishing boat operating illegally in Japanese territorial waters off the Senkaku Islands in September 2011 rammed a Japan Coast Guard vessel, which then captured the fishing boat. Japan, together with the US and the EU, claiming illegality of China’s export control measures (imposition of export taxes, restrictions on export volumes, and restrictions on trade rights) on rare earths, tungsten, and molybdenum, filed the case with the WTO dispute settlement mechanism, which in 2012 dismissed China's assertion that its ban was for the protection and conservation of resources, and ruled that its export prohibition would arbitrarily favour China’s domestic industries.

In Parallel with the filing of a WTO lawsuit, Japan, the US and EU strengthened policy co-operation for the diversification of supply origins, the development of

alternative materials, and the promotion of their recycling for the stable procurement of rare earths. They also conducted research and development on their reuse, reinvigorating the domestic production networks. Although the action of the Chinese fishing boat in disguise appeared intended to undermine the national security and sovereignty of Japan, the countermeasures taken by Japan and the West were originally distinctive from the subject of economic statecraft, and had not been comprehended to fall under the category of economic statecraft measures.

While the aforementioned countermeasures was taken intended at the time of taking to prevent business interests of companies of the West from damages incurred upon them by a foreign government's trade measures, economic statecraft measures are to protect the national security of a sovereign state from any threats or infringement imposed upon it by an act of a foreign government. The recent export restrictions on advanced semiconductors currently in place in Japan, along with some Western countries, for instance, are, however, now categorised as an exercise of economic statecraft, as they are contemplated to frustrate importing countries intending to use such equipment to build up their military power and become a national security threat to the exporting countries.

Out of dire need to prepare against the deterioration in East Asia's security environment, our Parliament enacted a law in May of last year to advance strategic policies in the four areas, empowering the government to take swift actions, which it has in fact been putting in place one after another. First, the government is strengthening supply chains to ensure a stable supply of those strategically critical goods and raw materials that have a significant impact on people's livelihoods and industrial activities. Second, it is establishing a framework to provide financial assistance for the development of cutting-edge strategic technologies by reinvigorating their research and development.

Third, the government is intervening in the maintenance and management of key critical infrastructure so that external disruptions do not impede the functioning of such infrastructure. Fourth, it is newly introducing a non-disclosure patent system to withhold disclosure of security-sensitive technologies at the time when each of their applications is filed. These four policy measures represent just the first few steps forward in reinforcing economic statecraft in Japan, and many more approaches ought to be presented in future to confront the emerging imminent security challenges surrounding Japan.

The scope of economic statecraft can be broadly interpreted to cover a wide range of government economic policy, including constraining inward and outward investment, restricting export of sensitive goods and technologies, protecting confidential information and technologies held by engineers, and securing an ample budget for defence technology development, all of which are already practiced, albeit in a more piecemeal, less strategic and less rigorous fashion.

Defending against foreign domination or influence through investment in domestic companies that handle sensitive technologies or goods, or in real estate, including land in highly strategic locations, such as those near power stations, water reservoirs, islands or mountains, ought also to be an important part of economic statecraft policies. So should be addressing concerns about information or technology leaks through foreign researchers or students in training at companies or university research institutes.

The COVID 19 crisis alerted us to the serious defects of the current economic policy of relying heavily and inattentively on global supply chains. Severance from supply chain networks, be it man-made or caused by a natural phenomenon, could lead to grave vulnerabilities in national security during times of crisis, especially in defence industries. The government has now begun subsidising companies that had shifted significant assets overseas, especially to unfriendly areas, during the past three decades of post-Cold War globalisation, to repatriate their assets or relocate them to like-minded countries.

Properly managed, economic statecraft is potentially aligned with economic growth strategy. Vigorous industrial activity in the private sector expands national wealth, thereby uplifting national security. However, leaving the growth of strategically critical dual-use industries to the invisible hand of the market alone has proven insufficient to reach the desired level of their development. Hence, budgetary subsidies and other policy supports are essential. Our government has already sharpened its focus on reinforcing industrial policies that support the development of dual-use and other advanced technologies, and on enhancing the production capacity of cutting-edge industries, including the training of engineers.

In this context, it is worth noting the recent fading of the demarcation between military and economic powers. In current preparations for “hybrid warfare,” all state activities—economic, technological, legal, propaganda, and political—are to be mobilised as tools for both offensive and defensive purposes. Economic strength facilitates science and technology development, and, in the age of dual-use

technologies, industrial policies promoting them could also enhance military capabilities, enabling defence industries to manufacture advanced defence equipment and technologies. This is yet another major pillar of economic statecraft.

Policy measures for economic statecraft vary. Strengthening the development of quantum computing, space and cyberspace technologies, robotics and other advanced industrial technologies, ensuring communication channels by safeguarding satellites, submarine cables and internet lines, replacing the general competitive bidding system with a negotiated contract system as necessary for defence procurement, reinforcing defence industries, repatriating supply chain networks, securing storage of strategic mineral resources at home, and upgrading the capability of engineers would all serve to promote a nation's economic strength and consequently enhance its national security.

The intention to apply economic and industrial policies, such as those mentioned above with a view to enhancing national security in an environment perceived to be menacing, will constitute a remarkable deviation from the *laissez-faire* economic policy so highly recommended and broadly accepted in the era of globalisation. Hence, it may be necessary to convince the general polity, the business community and indeed the government as a whole to pursue a swift conversion of economic and industrial policies. It may also require organisational restructuring of national institutions.

Conventional Keynesian economic policies, seeking to expand the economic pie through liberalisation and deregulation, on the one hand, and economic statecraft policies aimed at strengthening national security by means of economic power, on the other, are two separate sets of economic policies based on different values and in pursuit of distinctive policy objectives. They are, however, not conflicting with each other, but rather mutually reinforcing. On the one hand, unless economic benefits grow and economic foundations are strengthened, national security will suffer and businesses' pursuit of economic profit will be severely constrained. Conversely, if economic statecraft results in a policy straitjacket which overly constrains liberal democratic society and individual initiative, the benefits of national security will be lost and misunderstood.

On the other hand, when national security is threatened, business pursuit of economic profit should be severely limited. The business community may reveal psychological resistance to restrictions on economic liberalisation for national security reasons. But would the business community hold a view that the national security could

be compromised even to suffer from invasion, as long as business interests are guaranteed?


Although mutually reinforcing, separate rules apply to these two sets of economic policies. As the policy objectives are different, so ought to be the applicable disciplines, as stipulated expressly in the rules set out by the World Trade Organization (WTO) and the Organization for Economic Co-operation and Development (OECD). Such principles are shared by developed and developing countries alike.

Special rules and regulations should further be applied for national security purposes through amendments, for instance, of the Foreign Exchange Law, which governs imports and exports as well as inward and outward investment, of the Finance Law, which generally requires competitive open bidding for government procurement, of the Antimonopoly Law, which promotes competition, and of the Patent Law, which enumerates all the patent applications fully disclosed to the public. Many economic laws, including the aforementioned, would need to establish exceptions from a national security viewpoint. The dire security environment in the region does not allow for any delay in those tasks.

In addition, it would be appropriate to tailor the application of Corporate Governance Codes, general instructions for corporations, to defence-related businesses from the perspective of national security, particularly regarding its guidance upon corporations to disclose information to shareholders or to cut off the defence section on the grounds of low profit margins.

Debates on economic statecraft have wider perspectives to include the use of economic measures to “impose” threats, besides those to “defend” from threats. The issue is whether Japan could effectively impose and implement economic sanctions, such as raising tariffs, suspending imports and exports, halting currency exchanges, and freezing assets.

In closing my essay on economic statecraft, let me reiterate that military and non-military activities have merged to a greater extent than before, largely due to the prevalence of information technologies and digitalisation throughout the economy. The use of military forces was previously conceived as involving the use of lethal devices causing direct physical harm to people. In recent “hybrid battles”, however, electronic devices have been widely used for missile guidance, advanced communication, high-speed computing, complex cryptography and satellite deployment in distant space. These devices are not direct lethal devices, but without them modern military machines cannot function properly.

Economic statecraft is not a panacea. In times of crisis, a number of other means, including military forces, should collectively be mobilised to protect the national security. 

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